SOME SOCIAL RELATIONS OF BIG BUSINESS[1]

JOHN HAYS HAMMOND

OTHER speakers, Mr. Perkins and Mr. Whitridge particularly, have stated that the trend of industrial development, not only in this country but the world over, is along the lines of large-scale production, or big business as it is sometimes called. This is following the economic law of industrial evolution from which I do not believe there can be any future deviation. To return to operation in small units would be as inadvisable as would be the introduction into this country of small locomotives and freight cars such as are operated in Europe. Such a change would, it is true, result in the employment of a few more locomotive engineers and other laborers in the handling of freight trains; but it would, at the same time, inevitably result in an increased cost of transportation, for which the consumer would have to pay.

Large-scale production is justified from every point of view. First, it is an advantage to the employer of labor, affording him an opportunity for profitable investment in enterprises which, conducted on a small scale, would not pay. Second, therefore, it is obviously in the interest of the wage-earner as it affords him employment in new enterprises that otherwise would not be established. Third, it is of benefit to the consumer, as the cost of production is lessened, and therefore, while he may not obtain an equivalent reduction in the prices of commodities, he nevertheless does obtain a substantial decrease.

The conduct of large operations often involves consolidations and combinations of capital, which tend, unless legally checked, to the creation of monopolies. Herein lies the necessity for government control. Such control may insure the maintenance of individualism as against the tendency to collectivism which might result in socialism. It is important at the outset, as

[1] An address delivered at the annual dinner of the Academy of Political Science, November 10, 1911.

Professor Seager states in his standard *Introduction to Economics*, to discriminate between monopoly and the differential advantages to be found in nearly every branch of competitive business.

Many economists oppose government control, favoring rather the enactment of legislation supplementary to the Sherman Act. Owing to the intricacies of the problem, others believe the creation of a federal industrial commission will be found necessary to give elasticity in the interest of economic progress to the basic law governing the conduct of operations of large combinations of capital.

It is especially necessary in the conduct of big business to prevent the monopolization of the natural resources of the nation. Strict supervision of big business is also not only necessary but amply justified, where industries are dependent upon the maintenance of a protective tariff. Business of this nature should be subject to federal incorporation to enable the consumer to know whether or not the profits derived are reasonable or are excessive. If the government were to start its "regulation" at the time of the formation of the companies there would be much less complaint on the part of the public against big business; that is to say, the Government should regulate the promoter, thereby obviating the subsequent necessity of "unscrambling the eggs." The publicity of federal incorporation would, I believe, likewise inspire confidence among foreign investors, whereby cheaper money could be secured for industrial developments.

While it is, of course, desirable to encourage healthful competition, we should aim to stimulate competition between big corporations rather than endeavor to create many small competitive enterprises; for what we need is more trade rather than an excessive number of traders. Drastic laws fostering competition must inevitably prove ineffective if competition reaches the ruinous, or "cut-throat," stage, which must ultimately establish monopoly on the part of the successful survivors.

Competition is commonly called the life of trade; but, as a matter of fact, it often works irreparable injury to industrial communities by lowering wages; by causing fluctuations in

prices, which depress business, and by leading to the loss of investments which deter other investors from new fields of industrial enterprise. Reasonable stability in prices is the basis of prosperous trade.

In some of our national industries we are approaching dangerously near the Charybdis of cut-throat competition in order to avoid the Scylla of monopoly. Take for example the condition of the coal-mining industry. In many coal-mining districts competition has so reduced the price at the pit's mouth as to render impossible the production of coal, without financial loss, by any other method than that which is known in mining parlance as "gutting the mine." This means the extraction of the higher grades of coal, or of that which can be for the time more cheaply mined, leaving the rest of the coal in the abandoned workings beyond the hope of future recovery. Indeed, in many districts one-half of the coal is, in pursuance of this policy, left unmined, and is irretrievably lost.

There is another phase of large-scale production which has not been referred to this evening. In periods of business depression, which are bound to recur, we find, owing to the over-extension of our manufacturing plants during boom times, a large surplus of mill products which cannot be absorbed in our home markets. This condition necessitates either the restriction of output by closing down parts of the mills, or a resort to foreign markets for the sale of the surplus products in question. To close down the mills is highly undesirable, for by so doing the effective organization which has been built up is impaired, and likewise many wage-earners are thrown out of employment. The alternative is, as I have said, the sale of our surplus products in foreign markets.

It is difficult to develop new markets speedily, and we are therefore compelled to seek the markets of Europe, where American commerce has already been established. So great is the interdependence of the commercial nations of the world that we find in times of depression in this country similar conditions prevailing in Europe. To compete successfully, therefore, with the minimum prices of our European competitors it is often necessary for us to make quotations lower than those at

which the same commodities are sold in our home market. This practise has been made use of as a political argument against our protective tariff policy; and while it is one difficult to justify upon a political platform, it is, nevertheless, unquestionably justified by the economic considerations I have already advanced.

A further vindication of such a policy is that, by adopting this method of securing foreign trade, we are enabled to prevent the expansion of the industries of our great commercial rivals, and thus to prevent them from attaining the low cost of production that we ourselves enjoy. This enables us to compete successfully with them in other foreign markets where highly developed industrial organizations do not exist, but where the revenues are chiefly derived from the exportation of raw material. It is in such markets that the great export trade of England has been developed; whereas Germany and America, her formidable competitors, have confined their activities for the most part to the highly competitive markets of Europe. To relieve the congestion of our home markets, and to increase the credit balance of our foreign trade, which is susceptible of enormous expansion, we should take steps for an energetic exploitation of the great markets that are being opened up in Africa, South America, and the Orient.